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July 8, 2008

## EX PARTE PRESENTATION

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

*Re: WC Docket No. 05-337; CC Docket No. 96-45; CC Docket No. 01-92*

Dear Ms. Dortch:

This letter is to inform you that on July 7, 2008, John Jones, Vice President, Regulatory-Government Relations for CenturyTel, Michael Balhoff or Rowe, Balhoff & Williams LLC, and I met with Amy Bender, Acting Legal Advisor, Wireline Issues to Chairman Martin, in the above-referenced dockets. CenturyTel discussed the attached material during the meeting.

Pursuant to 47 C.F.R. § 1.1206, please include this ex parte filing in the above-referenced docket.

Sincerely,

/s/ Gregory J. Vogt

Gregory J. Vogt  
Counsel for CenturyTel, Inc.

Enclosure

cc: Amy Bender



personal touch ■ advanced communications

# **High-Cost Universal Service Support Federal-State Joint Board on Universal Service**

CenturyTel, Inc.  
July 2008

## **Universal Service: Basic, Achievable Reforms Must Take Place Quickly**

- The high cost fund must be stabilized to continue to support affordable telecommunications services in rural, insular, and high cost areas.
- There are certain achievable reforms that can be completed immediately.
- The Federal-State Joint Board recommendation is the correct path for global reform.
- The FCC should develop equitable disbursement and accountability mechanisms that ensure stewardship for ILECs and CETCs.
- Other reform issues.

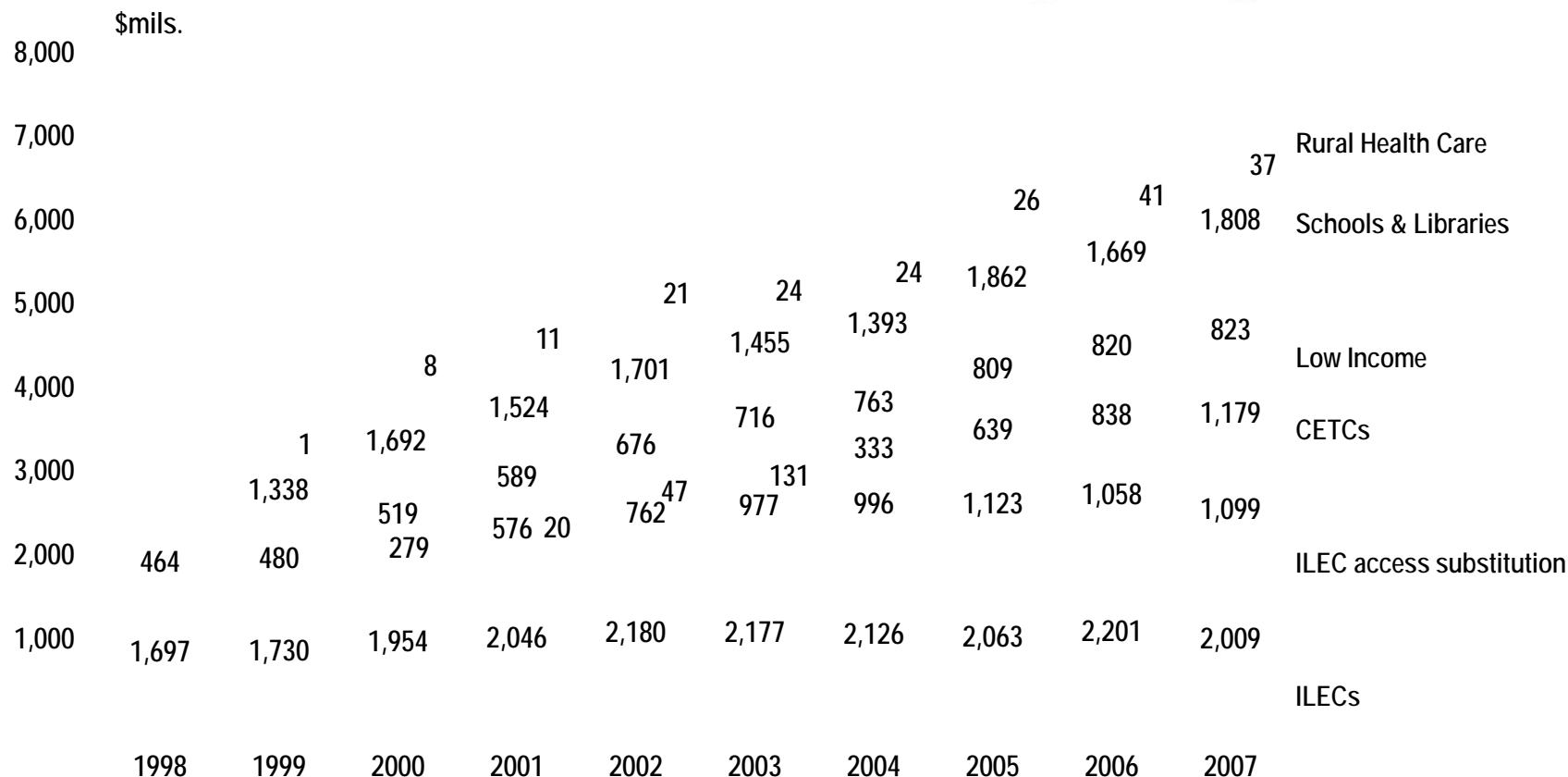
## Key Considerations

- The financial community and the States need appropriate signals from the FCC that bring clarity to, and stability of, universal service and intercarrier compensation programs are achievable and near.
- Greater certainty is needed for the timing and decisions related to future network investment.
- Broadband services have become the new core service offering for most providers.
- The challenges of serving rural markets have not changed with broadband and IP functionality added to the network.
- The need for reform before the pending presidential election and other political unknowns is critical.
- The potential is great for the FCC to declare victory over specific accomplishments that serve the public interest and advance network investment and broadband deployment.

## **The high cost fund must be stabilized to continue to support affordable telecommunications services in rural, insular, and high cost areas.**

- Immediate stabilization of the program for the future should be an over-riding objective of any reform.
- Modify the contribution methodology to include the broadest base of providers possible including all providers that utilize the public switched network for their business interests. A clearly defined working telephone numbers/connections methodology is appropriate.
- ILECs should have reasonable flexibility to elect regulatory and financial structures that reflect an increasingly changing operating environment.
- Any fundamental reforms must have sufficient transitions to meet existing financial commitments.
- Alternate technologies should only be supported with clear policy principles rooted in Section 254 and imposition of accountability standards.
- The CETC funding mechanism must be modified to eliminate unwarranted pressure and growth of the overall fund.

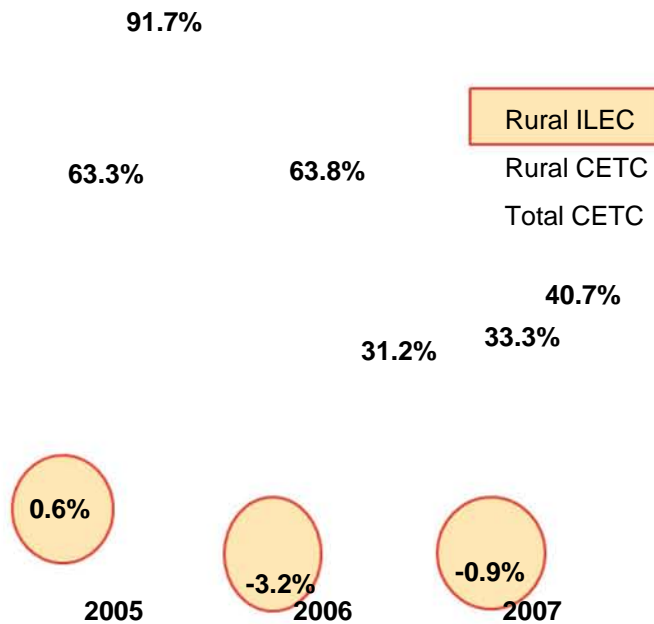
# The Universal Service Fund by Program



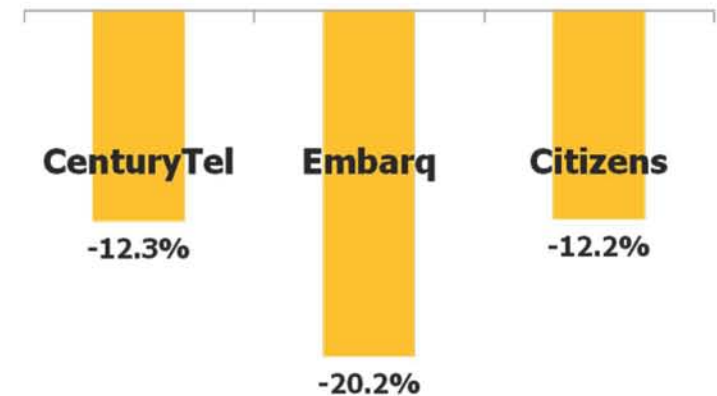
Source: USAC FCC filings: Balhoff , Rowe, & Williams LLC.

ILEC HCF has seen modest or flat growth for the past decade; total ILEC HCF represents only 45% of total USF, with ILEC support ex access replacement only 29%.

## The High Cost Fund: A Declining Revenue Source for Some ILECs



### Mid-size Carrier USF Reductions Are Even Greater



Actual federal USF payments; prepared by Balhoff, Rowe & Williams, LLC.

## **The Federal-State Joint Board recommendation provides the correct path for reform**

- **The Provider of Last Resort Fund is critical to meeting statutory universal service goals.**
  - The present high cost mechanisms have served rural consumers and states well.
- **A well-defined mobility program can meet multiple goals.**
  - Eligibility for funding should be based on submitting costs, meeting specific COLR obligations consistent with the purposes for which support is provided.
  - To control pressure on the fund, clear requirements should be established for eligibility, certification and number of handsets supported.
- **The FCC should develop a separate, well-defined broadband program.**
  - A separate, limited, technology-neutral broadband program with clear eligibility criteria should be established for unserved and the highest cost areas.
  - A key component must be funding for rural transport costs not covered today.
  - The program should be funded jointly through CETC reforms, an updated contribution mechanism, and other funding sources.



## **The FCC should develop equitable disbursement, accountability and stewardship for ILECs and CETCs**

- CenturyTel applauds the FCC's adoption of the CETC Fund Cap.
- The Commission should move quickly to eliminate the Identical Support Rule for CETCs and base their future support on their actual cost.
- CETCs should make investment prior to receiving high cost support.
- Competitively neutral carrier-of-last-resort requirements must apply to all USF recipients.
  - CETC auctions may be considered to ease administrative burdens of producing a cost study.
- Access replacement funding (ICLS, LSS, IAS) for CETCs should be eliminated without delay to take pressure off fund growth.

## CETC Receipt of Access Replacement (ICLS, IAS) Drives Growth of the USF

- USAC reports actual payments to CETCs increased 36.2% overall
- CETC access replacement payments were up 42.0%, driven by ICLS which was up 45.0%
- CETC high cost loop payments increased 35.2%.
- All other components of CETC funding grew at lower rates than access and HCL payments.
- The data suggest that access replacement should be a focus of CETC reform, especially as wireless carriers did not receive access payments but did benefit from ILEC access reductions.

		<b>Disbursements increased by 36.2% in USAC quarterly reports</b>			<b>Other</b>
				\$106	<b>Local Switching Support</b>
				\$149	<b>High Cost Model</b>
	\$84				
	\$120	35.2%	\$324		<b>High Cost Loop Support</b>
	\$239				
		42.0%			
			\$553		
	\$390				<b>Access replacement (Interstate Access and Interstate Common Line Support)</b>
<b>Mils.</b>					
	<b>2006</b>		<b>2007</b>		

Source: Balhoff, Rowe & Williams, LLC; figures are based on reported quarterly disbursements found in USAC HC01 Quarterly Appendices; totals do not precisely match the totals reported by USAC in its annual reports.

## Other Reform Issues

- **Reverse auctions** should be rejected for fund distribution.
  - There is substantial risk associated with replacing policy that has been working with untried and controversial mechanisms.
  - Access to capital, investment and dedication to markets would suffer under a reverse auction approach.
  - The Telecom Act's requirement for "specific, predictable and sufficient" would ultimately not be met.
  - Stricter public interest standards and eligibility requirements provide a more reasonable solution for controlling fund size and disbursements.
- **Intercarrier Compensation Reform** must address the delicate balance that is needed between the loss of switched access revenues to non-access paying companies that still rely on the ILEC network.
  - The FCC should immediately adopt the "phantom traffic" proposals to promote proper rating of calls.
  - The FCC should issue a decision in the *ISP Remand* proceeding that maintains the existing compromises reached with respect to ISP traffic.
    - The amount of dial-up internet access traffic in rural areas is still significant.
    - Eliminating the limitations and caps in the *ISP Remand* would increase rural ILEC costs without taking steps to solve current IP traffic compensation anomalies.

# 700 MHz Footprint ILEC & Fiber Overlap

